



# WEEKLY ECONOMIC DIGEST



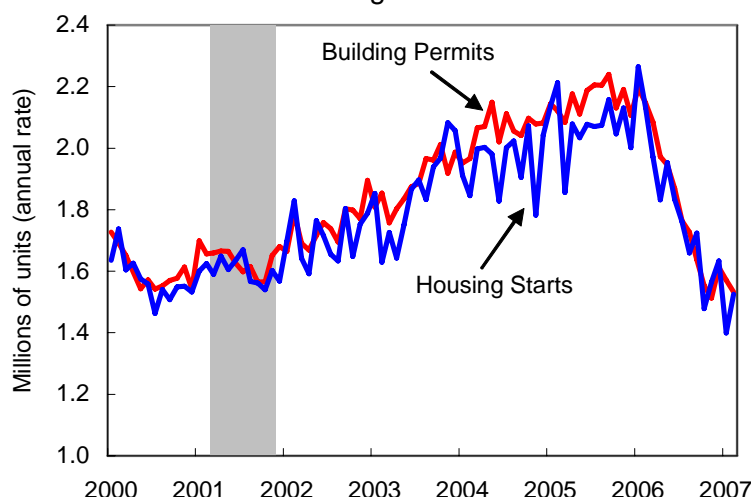
JOINT ECONOMIC COMMITTEE

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March 26, 2007

## Latest Data Suggest It Is Too Early to Tell Whether the Worst Is Over for Housing

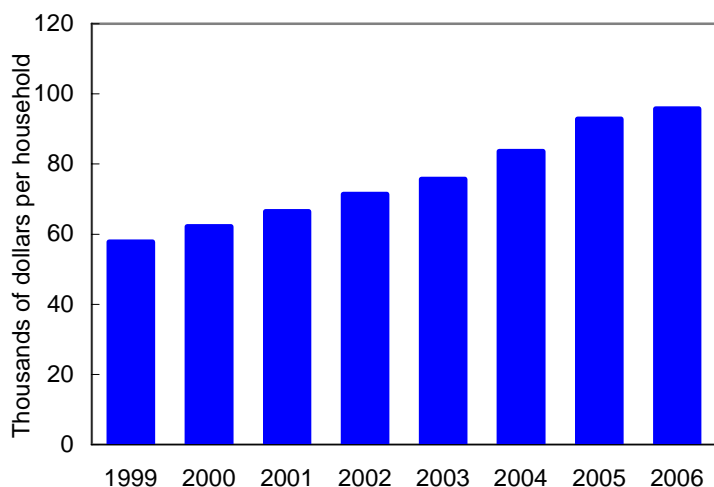
New Private Housing Started and Authorized



Source: Census Bureau, U.S. Department of Commerce and National Bureau of Economic Research.

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

Owners' Equity in Household Real Estate



Source: Board of Governors, Federal Reserve System and Census Bureau, U.S. Department of Commerce.

- **New homebuilding rose in February, but builders remain pessimistic.** The number of new privately owned housing units started rose by 9.0 percent last month to 1.525 million units at an annual rate, partly offsetting January's 14.3 percent plunge. However, permits to build fell 2.5 percent in February, reflecting continuing pessimism among homebuilders, and both starts and permits are well below their levels a year earlier (see top chart).
- **Sales of existing homes rose last month.** Sales of existing homes rose by 3.9 percent to 6.690 million units at an annual rate last month, the highest sales rate in 10 months. However, February sales were 3.6 percent lower than a year earlier and the median price of existing homes sold (\$212,800) was 1.3 percent lower than a year earlier.
- **New home sales dropped in February.** Sales of new single-family homes fell by 3.9 percent last month to 848,000 units at an annual rate. That is the lowest monthly rate since August 2000, and follows January's 15.8 percent plunge. February new home sales were 18.3 percent below last year's level.
- **Growth of housing-related wealth slowed sharply last year.** Owners' equity in household real estate (the market value of owner-occupied housing less mortgage debt outstanding) rose 3.1 percent to \$95,688 per household in 2006 (see bottom chart). That was the slowest rise since 1997, and was well below the 2005 gain of 11.1 percent.
- **The Fed left interest rates unchanged and subtly shifted its stance on future rate moves.** Confirming the expectations of financial markets, the Federal Reserve decided last week to keep its target for the federal funds rate at 5¼ percent. The Fed also changed the language it used to announce the move, shifting from an apparent bias toward future tightening to a more neutral stance. The ongoing adjustment in the housing sector appears to have been a factor.

The Economy at a Glance	Feb	Jan	Dec	Nov	2006 Qtr 4	2006 Qtr 3	2006 Qtr 2	2006 Qtr 1	2006	2005
<b>Economic Activity</b>										
Real GDP (% growth)*	—	—	—	—	2.2	2.0	2.6	5.6	3.3	3.2
Industrial Production (% growth)	12.7	-3.5	10.0	-4.7	-1.2	4.0	6.5	5.0	3.9	3.2
Capacity Utilization (level, %)	82.0	81.4	81.7	81.3	81.6	82.3	82.0	81.2	81.8	80.2
Civilian Unemployment Rate (level, %)	4.5	4.6	4.5	4.5	4.5	4.7	4.7	4.7	4.6	5.1
Housing Starts (thousands)	1525	1399	1633	1565	1559	1714	1873	2123	1817	2073
Real Disposable Personal Income (% growth)*	n.a.	6.7	1.7	3.1	5.3	3.2	-1.5	4.6	2.6	1.2
Retail Sales (% growth)	1.1	-0.5	14.9	5.1	0.3	3.7	3.1	13.2	6.3	7.2
Personal Saving Rate (level, %)*	n.a.	-1.2	-1.4	-1.1	-1.2	-1.4	-1.4	-0.3	-1.1	-0.4
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	4.9	2.4	4.9	0	-2.1	3.1	5.0	1.9	3.2	3.4
Core CPI-U Inflation (% growth)	2.4	3.7	1.2	1.2	1.9	3.0	3.3	2.4	2.5	2.2
Compensation per hour (% growth)	—	—	—	—	3.2	4.1	3.6	2.4	3.1	3.3
Output per hour (% growth)	—	—	—	—	1.6	-0.5	1.2	3.5	1.6	2.1
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	5.03	4.98	4.85	4.94	4.90	4.91	4.70	4.39	4.73	3.15
T-note Rate, 10-years (level, %)	4.72	4.76	4.56	4.60	4.63	4.90	5.07	4.57	4.80	4.29
Federal Funds Rate (level, %)	5.26	5.25	5.24	5.25	5.25	5.25	4.91	4.46	4.97	3.22
Dow Jones Industrial Avg (index level)	12631	12513	12378	12185	12175	11274	11189	10996	11409	10548

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

\*Subject to revision over the next week.

### Upcoming Economic Releases:

- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders: February 2007** [Release: Wednesday, March 28]
- **Gross Domestic Product (Final) and Corporate Profits: Fourth Quarter 2006** [Release: Thursday, March 29]
- **Personal Income and Outlays: February 2007** [Release: Friday, March 30]
- **Construction Spending: February 2007** [Release: Friday, March 30]